

Message Text

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ACTION EB-08

INFO OCT-01 EUR-12 ISO-00 FEA-01 ERDA-05 AID-05 CEA-01

CIAE-00 COME-00 DODE-00 FPC-01 H-01 INR-07 INT-05

L-03 NSAE-00 NSC-05 OMB-01 PM-04 USIA-06 OES-06

SP-02 SS-15 STR-04 TRSE-00 ACDA-07 PA-01 PRS-01

/102 W

-----240035Z 065807 /45

P 232356Z MAR 77

FM AMEMBASSY OTTAWA

TO SECSTATE WASHDC PRIORITY 2892

INFO AMCONSUL MONTREAL

ALL OTHER CONSULATES IN CANADA (BY POUCH)

LIMITED OFFICIAL USE SECTION 01 OF 02 OTTAWA 01878

PASS WHITE HOUSE/SCHLESINGER, FEA AND FPC

E.O. 11652: N/A

TAGS: ENRG, CA

SUBJECT: ENERGY: GOC TO SET NEW DOMESTIC OIL AND NATURAL
GAS PRICES APRIL 6

REF: OTTAWA 506

1. BEGIN SUMMARY. FEDERAL AND PROVINCIAL ENERGY MIN-
ISTERS WILL MEET APRIL 6 TO SET NEW DOMESTIC OIL AND
NATURAL GAS PRICES FOR YEAR PERIOD BEGINNING JULY 1.
DEPARTMENT OF ENERGY, MINES AND RESOURCES (EMR) WILL
RECOMMEND A \$2 PER BARREL INCREASE IN THE WELLHEAD
PRICE OF CRUDE OIL AND CONTINUATION OF NATURAL GAS
PRICES AT 85 PERCENT OF CRUDE OIL PRICES. DETERMINATION
OF EXPORT PRICE IS INDEPENDENT OF THIS PROCESS. RECENT
EXCHANGE RATE PRESSURES MAY FORCE GOC TO INCREASE GAS
EXPORT PRICE SOONER THAN PREVIOUSLY ANTICIPATED JULY 1
DATE. IN VIEW OF POSSIBLE EARLY EXPORT PRICE INCREASE
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DECISION BY GOC, EMBASSY REQUESTS CONCERNED WASHINGTON
AGENCIES TO SPEED UP ASSESSMENT OF U.S. GAS MARKET
REQUESTED IN REFTEL. END SUMMARY.

2. EMR SPOKESMAN ANNOUNCED MARCH 17 THAT FEDERAL AND
PROVINCIAL ENERGY MINISTERS WILL MEET APRIL 6 IN OTTAWA
TO SET A HIGHER PRICE FOR DOMESTIC CRUDE OIL TO BE

EFFECTIVE JULY 1. SPOKESMAN SAID PRICE INCREASE COULD RANGE BETWEEN \$1.25 AND \$3 PER BARREL ABOVE CURRENT WELLHEAD PRICE OF \$9.75. HE SAID, HOWEVER, THAT INCREASE OF \$3, WHICH WOULD RAISE CANADIAN OIL TO WORLD PRICE, IS UNLIKELY.

3. PRICE INCREASE FOLLOWS CANADIAN ENERGY POLICY OF MOVING DOMESTIC OIL PRICES TO WORLD OIL PRICE LEVELS OVER THE NEXT FEW YEARS. SINCE EXPORT PRICE TO U.S. IS ALREADY BASED ON INTERNATIONAL PRICE OF OIL LANDED AT CHICAGO, CHANGE IN CANADIAN DOMESTIC PRICE SHOULD NOT AFFECT COST OF CANADIAN OIL TO U.S. CUSTOMERS.

4. SENIOR EMR OFFICIAL INFORMED EMBOFF THAT HIS DEPARTMENT IS NOW PREPARING A DRAFT RECOMMENDATION FOR MINISTER GILLESPIE TO SEEK CABINET APPROVAL OF FEDERAL POSITION CALLING FOR A \$2 INCREASE, PHASED IN DURING YEAR BEGINNING JULY 1, 1977 WITH INITIAL INCREASE OF \$1 FOLLOWED BY TWO \$0.50 INCREASES. WELLHEAD CRUDE OIL PRICE INCREASE, SOURCE SAID, WILL PROBABLY BE FOLLOWED BY A 60-DAY FREEZE ON PETROLEUM PRODUCT PRICES DURING WHICH REFINERS WILL EXHAUST INVENTORIES ACQUIRED AT PREVIOUS LOW PRICE. PRICES PAID BY CONSUMERS WOULD NOT, THEREFORE, RISE UNTIL 60 DAYS FROM EFFECTIVE DATE OF CRUDE OIL PRICE INCREASE.

5. EMR SOURCE ALSO SAID DOMESTIC NATURAL GAS PRICES WILL BE SET AT SAME FEDERAL-PROVINCIAL MEETING. EMR WILL RECOMMEND CONTINUING PRESENT RELATIONSHIP OF NATURAL GAS AND OIL PRICES, I.E. NATURAL GAS PRICE WOULD CONTINUE AT 85 PERCENT OF DOMESTIC OIL PRICE LIMITED OFFICIAL USE

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ON BTU EQUIVALENT BASIS. THIS WOULD RAISE WELLHEAD PRICE FROM \$1.43 PER THOUSAND CUBIC FEET (MCF) TO \$1.72 MCF. TORONTO CITY-GATE PRICE WOULD THEREFORE MOVE FROM \$1.505 MCF TO ABOUT \$1.80 MCF. DATE PRICE INCREASE WILL FLOW THROUGH TO CONSUMERS IS REGULATED BY PROVINCIAL GOVERNMENTS AND ALSO DEPENDS ON THE AMOUNT OF "CUSHION" IN FORM OF GAS INVENTORIES HELD BY LOCAL UTILITIES, SO TIMING OF IMPACT ON CONSUMERS WILL VARY FROM LOCALITY TO LOCALITY: (NOTE: DOMESTIC AND EXPORT PRICES OF NATURAL GAS ARE DETERMINED INDEPENDENTLY. NATIONAL ENERGY BOARD (NEB) MAY, IF CIRCUMSTANCES WARRANT IT, CHANGE EXPORT PRICE AT ANY TIME. AS REPORTED REFTEL NEB IS NOW STUDYING U.S. NATURAL GAS MARKET WITH VIEW TO RECOMMENDING HIGHER EXPORT PRICES. REFTEL IMPLIED THAT GOC DECISION WOULD BE MADE IN TIME FOR NEW EXPORT PRICE LEVELS TO TAKE EFFECT JULY 1. HOWEVER, GOC OFFICIALS NOW SAY THAT DUE TO SUBSTANTIAL REVENUE LOSSES TO GAS PRODUCERS RESULTING FROM RECENT DECLINE IN VALUE OF

CANADIAN DOLLAR, DECISION TO INCREASE EXPORT PRICE
COULD COME SOONER.)

6. EMBASSY COMMENT: THE \$2 PRICE INCREASE WHICH EMR
WILL RECOMMEND WILL BALANCE CONFLICTING INTERESTS OF
ALBERTA AND OTHER PRODUCING PROVINCES ON ONE HAND AND
CONSUMERS IN EASTERN CANADA ON THE OTHER WHILE KEEPING
CANADIAN DOMESTIC PRICE ROUGHLY IN LINE WITH AVERAGE
U.S. DOMESTIC PRICES.

7. ACTION REQUESTED: IN VIEW OF POSSIBLE EARLIER
THAN ANTICIPATED DECISION BY GOC TO INCREASE EXPORT
PRICE OF NATURAL GAS, EMBASSY URGES THAT WASHINGTON
AGENCIES EXPEDITE ASSESSMENT OF U.S. GAS MARKET

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SP-02 SS-15 STR-04 TRSE-00 ACDA-07 PA-01 PRS-01
/102 W

-----250416Z 094414 /61/45

P 242356Z MAR 77 CCY FOR MRN
FM AMEMBASSY OTTAWA
TO SECSTATE WASHDC PRIORITY 2893
INFO AMCONSUL MONTREAL
ALL OTHER CONSULATES IN CANADA (BY POUCH)

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REQUESTED IN PARA 2 REFTEL. ENDERS

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Message Attributes

Automatic Decaptioning: X
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Decaption Note:
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Disposition Approved on Date:
Disposition Case Number: n/a
Disposition Comment: 25 YEAR REVIEW
Disposition Date: 22 May 2009
Disposition Event:
Disposition History: n/a
Disposition Reason:
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Executive Order: N/A
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